

Office of Intelligence
Liaison
Department of Commerce

SUBJECT: Written Briefing for Under Secretary
Lionel Olmer

Attached are the economic sections for Undersecretary Olmer's trip to Munich. We have deleted the political section due to the fluidity of the situation. The coverage in our daily publication should suffice to keep him up to date on the Bonn political scene.



Acting Director

Att:
as stated

21 September 1982

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Office of European Analysis
Directorate of Intelligence

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REMARKS

Bob,

The attached was done for Lionel Olmer's trip to Munich this Friday. Dave would like to have an approved copy for Olmer's briefing book tomorrow, 22 Sept.

today
Thanks,

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West Germany: Economic Trends and Trade with the Soviet Bloc

Economic Situation

The West German economic situation presents a mixed picture: better in many respects than that of any other West European country, but poor enough to have been a political liability to the Schmidt government. Inflation will fall below five percent soon and the Bundesbank has already eased up on monetary policy, allowing interest rates to fall. The value of exports through July is up nearly 12 percent over 1981 compared to only four percent for imports. The terms of trade (export versus import prices) continue to move strongly in West Germany's favor. The current account appears headed for a comfortable surplus of \$2 to \$4 billion in 1982. []

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On the other hand, unemployment is at levels not seen since the late 1940s with no hope of major improvement in the near term. Business sentiment is low and industrial production flat. The volume of orders for capital and consumer goods is running eight percent below 1981 levels. These gloomy data presage continued stagnation in production and continued delay in the economic upturn West Germany has been waiting for since January-March 1980, the last quarter of significant growth. []

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Most forecasters expect real GNP to advance less than one percent in 1982. For 1983, the West German Economics Ministry reportedly has lowered its working projection for real GNP from 3.0 to 1.5-2.0 percent, in line with some private forecasters. All forecasts for this year and next hinge on when an upsurge in

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[redacted]
consumer spending and investment will come; we expect the
recovery to begin by the end of the year. [redacted]

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Foreign demand, which has been a sustaining factor during
the domestic slump, now also is flagging. Weakening demand in
the OPEC countries and the continuing US-European recession are
beginning to show up in ^{orders for} West German exports. performance The
performance of the deutsche mark is problematic as well. Its
recent strength against European currencies is cutting somewhat
into West Germany's export competitiveness. On the other hand,
its weakness against the surprising US dollar has put an end
temporarily to further declines in West German interest rates.

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*in export orders?
You said on p. 1 that exports were up 12.7%.*

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West Germany: Key Economic Indicators

(Percentage Change)

| | <u>1980</u> | <u>1981</u> | <u>1982</u> ¹ |
|---|-------------|-------------|--------------------------|
| Real GNP | 1.8 | -0.3 | 0.4 |
| Industrial Output | .0 | -2.1 | -0.1 |
| Consumer Price Inflation | 5.5 | 5.9 | 4.8 |
| Real Exports | 6.0 | 8.9 | 5.7 |
| Real Imports | 5.9 | 2.1 | 3.1 |
| Trade Balance (billion US\$) | 4.9 | 12.3 | 2.0 |
| Current Account Balance (billion US\$) | -16.2 | -7.3 | 3.0 |
| Unemployment (thousands) | 891 | 1,281 | 1,817 |

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Ties with the Soviet Bloc

West Germany is by far the East Bloc's largest Western trading partner. However, from the West German perspective, the East accounts for only 6 to 7 percent of total West German trade, about the size of West German trade with the United States. The USSR is West Germany's leading eastern trade partner, accounting for about 2 percent of West German exports and imports, followed by East Germany. (Officially, of course, West Germany still treats goods exchanged with East Germany as a special category of internal trade.) The Soviet and Bloc shares of West German trade have receded from their mid-seventies peak as Communist countries

¹ CIA forecast.

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have had difficulty acquiring hard currency to pay for imports and have diverted some hard currency away from purchases of investment goods and into agricultural products. West German exports therefore have been particularly hard hit. Trade with Poland and Romania is down most markedly. []

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West German exports to the Bloc are dominated by machinery and steel (particularly steel pipe for the USSR). Energy stands out on the import side -- especially natural gas from the USSR, which now accounts for one-fifth of total gas imports. []

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In other economic areas the Bloc drops sharply in importance, although West Germany does have substantial loans outstanding to Eastern Europe. Trade in services with the Bloc is less than one-fifth that with the United States. Direct investment is negligible in both directions. []

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West Germany: Trade With Eastern Europe
 (Billion US\$)

| <u>Partner</u> | <u>1975</u> | | <u>1981</u> | |
|----------------|---------------------|-------------------|----------------------|----------------------|
| | <u>Exports</u> | <u>Imports</u> | <u>Exports</u> | <u>Imports</u> |
| World | 91.7 | 76.3 | 178.6 | 166.6 |
| East Bloc | 8.1 (8.8% Share) | 4.6 (6% Share) | 10.1 (5.6% Share) | 10.4 (6.2% share) |
| East Germany | 1.6 | 1.4 | 2.5 | 2.7 |
| Poland | 1.3 | .6 | 1.0 | .9 |
| Hungary | .6 | .4 | 1.2 | .9 |
| Czechoslovakia | .7 | .5 | .9 | .9 |
| Romania | .7 | .4 | .7 | .7 |
| Bulgaria | .4 | .1 | .5 | .2 |
| USSR | 2.8 | 1.3 | 3.4 | 4.1 |

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